

Message Text

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ACTION EB-07

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INFO USMISSION OECD PARIS UNN

USMISSION GENEVA

USMISSION EC BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY BUENOS AIRES

AMEMBASSY MEXICO CITY

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AMEMBASSY PARIS

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AMEMBASSY LONDON

C O N F I D E N T I A L BRASILIA 6752

E.O. 11652: GDS

TAGS: ENRG, EFIN, CIEC, BR

SUBJ: CIEC AND DEBT REPRESENTATIONS: BRAZILIAN VIEWS AND ATTITUDES

REF: (A) STATE 181094, (B) STATE 184169,

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1. SUMMARY. ACCORDING TO FOREIGN MINISTRY CIEC DELEGATES

GOB HAS ONLY MODEST INTEREST IN CIEC. BRAZIL, LIKE OTHER MODERATE, MORE HIGHLY DEVELOPED LDC'S HAS NO DIRECT STAKE IN DEBT ISSUE BUT IS GIVING LDC DEBT POSITION POLITICAL SUPPORT. WHILE THERE SEEM TO BE VARIATIONS IN JUDGEMENT AMONG GOB OFFICIALS, OVER-ALL BRAZIL'S KEY DELEGATES CLAIM TO BE FAIRLY PESSIMISTIC ON PROSPECTS FOR CIEC EXERCISE, AND REPORT SOME SENTIMENT AMONG G-19 TO CARRY OVER CIEC INTO NEXT US ADMINISTRATION. EMBASSY BELIEVES GOB WILL CONTINUE TO MAINTAIN LOW PROFILE IN CIEC BUT WILL WORK FOR MODERATION WITHIN G-19 ON SPECIFIC ISSUES WHEN ITS OWN INTERESTS ARE AFFECTED. END SUMMARY.

2. IN SEPARATE CALLS JULY 30 AND JULY 27, COUNSELOR ECON/COMM MADE PRESENTATIONS REFTELS A AND B TO AMBASSADOR PAULO CABRAL DE MELLO, BRAZIL'S CHIEF DELEGATE TO THE CIEC, AND TO MINISTER ALVARO DA COSTA FRANCO FILHO, BRAZIL'S REPRESENTATIVE IN CIEC FINANCIAL COMMISSION. COUNSELOR ALSO LEFT TALKING PAPERS SUMMARIZING GENERAL US APPROACH TOWARD CIEC (REFTEL A) AND US POSITION ON DEBT PROBLEM (REFTEL B).

3. CABRAL DE MELLO (CHIEF, FONMIN ECONOMIC DEPARTMENT) SAID GOB HAD ONLY VERY MODEST INTEREST IN CIEC. IN HIS VIEW, THE TWO CO-CHAIRMEN HAD MADE A MAJOR ERROR WHEN THEY DID NOT INSIST ON ADOPTION OF A WORK PROGRAM BY THE SENIOR OFFICIALS MEETING, KEEPING THE MEETING IN SESSION AS LONG AS NECESSARY FOR THIS PURPOSE. THERE HAD BEEN STRONG SENTIMENT IN THE G-19 THAT THE SENIOR OFFICIALS MEETING SHOULD COME UP WITH A WORK PROGRAM RATHER THAN LEAVING THIS TO THE COMMISSIONS. CABRAL DE MELLO EXPRESSED SKEPTICISM THAT THE CIEC WOULD PRODUCE MANY MEANINGFUL RESULTS RELEVANT TO BRAZIL, AND HAD NO SPECIFIC SUGGESTIONS ON HOW THE COMMISSIONS MIGHT RESUME THEIR WORK. HE SAID THERE HAD BEEN NO APPROACHES TO DATE FROM THE CO-CHAIRMEN OR FROM OTHER MAJOR COUNTRIES AND HE REPORTED SENTIMENT AMONG SOME OF THE G-19 TO CARRY THE CIEC EXERCISE OVER TO THE NEXT U.S. ADMINISTRATION.

3. WHILE CABRAL DE MELLO WAS LOW-KEY, ALMOST LACONIC IN HIS COMMENTS, COSTA FRANCO WAS VOLUBLE, PROLIX, AND PESSIMISTIC. COSTA FRANCO SAID THE PROBLEM BASICALLY WAS A POLITICAL-PSYCHOLOGICAL ONE, AND HE ADDED IRONICALLY THAT THE DESIGNATION QUOTE ANALYTICAL PHASE UNQUOTE HAD BEEN ATTACHED TO THE FIRST CONFIDENTIAL

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SIX MONTHS EX-POST FACTO. THE DC'S HAD A CREDIBILITY PROBLEM: THERE WAS A GENERAL BELIEF AMONG THE G-19 THAT THE DC HAD MADE NO SERIOUS EFFORT TO DATE TO ENGAGE THE LDC'S IN THE SEARCH FOR CONCRETE SOLUTIONS. HIS PERSONAL VIEW WAS THAT LITTLE HAD CHANGED SINCE THE START OF THE CIEC. PRIOR TO UNCTAD IV, COSTA FRANCO SAID, LDC DELEGATES TO THE CIEC WERE TOLD THAT UNCTAD IV WOULD BRING POLITICAL RESULTS. UNCTAD IV, IN HIS VIEW, DID INDEED GENERATE A SENSE OF A DC COMMITMENT AND, AS A RESULT, G-19

DELEGATES EXPECTED SUBSTANTIVE AND SUBSTANTIAL DECISIONS AT THE PARIS MEETINGS. THESE EXPECTATIONS WERE DISAPPOINTED, AND G-19 DELEGATES WERE LEFT WITH THE FEELING THAT THE G-8 WERE "DEALING WITH WORDS, NOT WITH SUBSTANCE". THE US DEMOCRATIC PARTY CANDIDATE'S FOREIGN POLICY SPEECH IN NEW YORK, COSTA FRANCO SAID, HAD ENCOURAGED CIEC DELEGATES "TO SEE MORE FLEXIBLE WINDS DOWN THE ROAD" EVEN THOUGH PEOPLE REALIZED THAT THERE WAS A DIFFERENCE BETWEEN PLATFORMS AND ACTUAL POLICY.

4. ON THE DEBT PROBLEM, COSTA FRANCO SAID THIS HAD EVIDENTLY NOW BECOME THE TEST CASE OF THE DC'S POLITICAL WILL. ALTHOUGH OF CONCERN ONLY TO A SUB-GROUP OF THE G-19, THE ISSUE HAD BECOME HIGHLY POLITICIZED, AND HE WAS PESSIMISTIC THAT IT COULD BE RESOLVED BY A MERELY FORMALISTIC PARLIAMENTARY DEVICE. UNLIKE CABRAL DE MELLO--WHO (BY IMPLICATION) SEEMED MORE OPTIMISTIC THAT A PROCEDURAL DEVICE COULD BE FOUND TO RESUME THE DIALOGUE IN THE COMMISSIONS--COSTA FRANCO THOUGHT THERE MIGHT BE A PROLONGED STALEMATE UNLESS THE G-8 CAME FORWARD WITH SUBSTANTIVE PROPOSALS TO BREAK THE IMPASSE.

5. WITH RESPECT TO THE U.S. POSITION ON GENERALIZED DEBT RELIEF (REFTEL B), COSTA FRANCO SAID THERE WAS "NOTHING NEW IN IT", THAT THIS WAS EXACTLY THE U.S. POSITION AS PRESENTED AT THE BEGINNING OF THE CIEC FINANCIAL COMMISSION'S MOST RECENT MEETING. THE APPROACH WAS LOGICAL, SOUND AND REASONABLE BUT IT DID NOT ADDRESS THE POLITICAL PROBLEM. BRAZIL, TOGETHER WITH MANY OF THE OTHER MODERATE, MORE HIGHLY DEVELOPED COUNTRIES, WAS NOT GREATLY INTERESTED IN THE ISSUE, BUT WAS SIMPLY GIVING POLITICAL SUPPORT TO A COMMON G-19 POSITION. ON THE OTHER HAND, THE BASIC US ARGUMENTS AGAINST GENERALIZED DEBT RELIEF -- THE DANGEROUS IMPACT AND PRECEDENT FOR TRADITIONAL CREDITOR-DEBOR RELATIONSHIPS -- WERE, IN HIS VIEW, MISSING THE MARK: THE PROPOSAL FOR GENERALIZED RELIEF, HE SAID, WAS LIMITED TO ODA AND DID NOT EXTEND TO

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PRIVATE SECTOR CREDITS; A DC COMMITMENT TO PROVIDE RELIEF FOR THESE DEBTS NEED NOT HAVE AN ADVERSE EFFECT ON PRIVATE CAPITAL FLOWS BUT, ON THE CONTRARY, COULD STRENGTHEN THE CREDIT WORTHINESS OF BENEFICIARY COUNTRIES. (COMMENT: WHEN ASKED WHETHER GENERALIZED ODA DEBT RELIEF WOULD EXTEND TO WORLD BANK CREDIT, COSTA FRANCO LAUGHED; GOB FINANCIAL AUTHORITIES WOULD, OF COURSE, TOLERATE NO MOVE WEAKENING THE IBRD AND WOULD WIN ON THIS ISSUE HANDS-DOWN WITHIN THE GOB). THE COUNTRIES PRINCIPALLY INTERESTED IN THIS TYPE OF GENERALIZED DEBT RELIEF--THE SOUTH ASIAN COUNTRIES AND THE LLDCS--FOR THE MOST PART HAD LITTLE PRIVATE DEBT; THE BULK OF THEIR INDEBTEDNESS WAS ODA AND OTHER PUBLIC SECTOR CREDITS. DELEGATES FROM THESE COUNTRIES WERE UNIMPRESSED BY THE ARGUMENT THAT THE INCIDENCE OF GENERALIZED DEBT RELIEF WOULD BE UNEVEN AND THAT SOME COUNTRIES IN THE GROUP WOULD GAIN CONSIDERABLY MORE THAN OTHERS. THE MORE FLEXIBLE SWEDISH ATTITUDE WAS FURTHER PROOF

TO THEM THAT GENERALIZED DEBT RELIEF WAS A TECHNICALLY VIABLE

APPROACH TO INCREASING NET RESOURCE TRANSFERS, PROVIDED THE DC'S HAD THE POLITICAL WILL TO DO SO. COSTA FRANCO SAID HE PERSONALLY AGREED WITH MANY OF THE US ARGUMENTS AND CONCERNS AGAINST GENERALIZED DEBT RELIEF AND UNDERSTOOD US "LEGAL AND THEORETICAL" PROBLEMS; HOWEVER THESE ARGUMENTS DID NOT CARRY WEIGHT IN THE PRESENT SITUATION.

6. COSTA FRANCO SUGGESTED THAT, IF THE U.S. "REALLY IS PREPARED" TO DO SOMETHING ON DEBT FOR THE MSAS, IT SHOULD PUT FORWARD A CONCRETE PROPOSAL: THE U.S. SHOULD FIRST LAY OUT THE "FACTS" (I.E., THE AMOUNT OF DEBT INVOLVED, COUNTRY-BY-COUNTRY) AND THEN OFFER A PROPOSAL WHICH WOULD SET FORTH RULES FOR RELIEF. THE U.S. PROPOSAL, HE SAID, SHOULD RESPOND TO THE POORER COUNTRIES' DISLIKE OF THE CASE-BY-CASE APPROACH, BECAUSE THEY OFTEN DO NOT UNDERSTAND THE PARIS CLUB MECHANISM AND THEY "ARE RELUCTANT TO GO TO PARIS ALONE." THESE COUNTRIES, HE ADDED, WERE SPURRED ON TO SEEK DEBT RELIEF BECAUSE OF DECLINING OFFICIAL BILNQERAL ASSISTANCE AND, MORE RECENTLY, DECLINING (IN REAL TERMS) IBRD ASSISTANCE.

7. COMMENT: COSTA FRANCO'S COMMENTS MAY PARTLY REFLECT HIS LONG-STANDING PERSONAL PESSIMISM ABOUT THE OUTCOME OF THE CIEC. THE COMMENTS ALSO REFLECT ANOTHER VIEW OFTEN HEARD HERE--THAT THE DC'S AND OPEC PARTICIPANTS ARE THE KEY PARTICIPANTS IN CIEC, NOT THE EDDC'S (ENERGY DEFICIENT DEVELOPING COUNTRIES). THIS PROBABLY CONFIDENTIAL

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REFLECTS THE VIEWS OF MANY INFLUENTIAL GOB OFFICIALS. BUT IT IS ALSO A HANDY ALIBI--WHEN DC'S SEEK BRAZILIAN SUPPORT FOR MODERATE VIEWS, THE GOB CAN CLAIM THAT THE POLITICAL COST TO BRAZIL OF A BREAK WITH LDC VIEWS IS GREAT IN COMPARISON WITH THE BENEFIT TO THE DC'S. OUR VIEW AT THIS POINT IS THAT BRAZIL WILL CONTINUE TO LIE LOW IN CIEC BUT WILL WORK WITHIN THE G-19 FOR MODERATION ON SPECIFIC ISSUES WHEN ITS OWN INTERESTS ARE AFFECTED, AND FOR SELECTIVITY BY G-19 ON WHICH ISSUES TO EMPHASIZE.

8. AS A SIDE LIGHT ON THE PERSONAL ATTITUDES OF BRAZILIAN POLICY MAKERS, IT MAY BE WORTH NOTING THAT CABRAL DE MELLO SPOKE OF THE JAMAICAN DELEGATE'S PERFORMANCE IN GLOWING TERMS, CALLING HIM A BRILLIANT MAN.
CRIMMINS

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